



City of Seattle

Gregory J. Nickels, Mayor

Seattle City Light

Jorge Carrasco, Superintendent

March 19, 2006

Congressman John D. Dingell, Chair,
Committee on Energy and Commerce
Congressman Rick Boucher, Chair
Subcommittee on Energy and Air Quality
House Committee on Energy and Commerce
Room 2125 Rayburn House Office Building
Washington, D.C. 20015

Dear Chairman Dingell and Chairman Boucher:

Thank you for the opportunity to comment on national climate change policies. Seattle City Light is pleased that Congress has made passing climate legislation a high priority and we look forward to working with you to accomplish this important challenge.

Seattle City Light, a department of the City of Seattle, is one of the nation's largest municipally-owned utilities, serving a growing population of 740,000 customers. While our power rates are the lowest in the country among cities our size, we are proud that Seattle businesses and residents are also national leaders in conservation.

Seattle City Light believes that human-related climate change is real; that it is already underway; and that Congress should act soon to pass legislation calling for greenhouse gas reductions. The Pacific Northwest, which includes Washington, Oregon, and Idaho, is overwhelmingly dependent upon hydroelectric power, with Seattle City Light ninety percent hydro-dependent. No other resource is more vulnerable to the consequences of climate change than hydropower, and the associated disruptions are among the greatest business risks we face in planning for our long-term ability to serve our customers.

Last year, under the leadership of Mayor Greg Nickels, I joined nineteen other business and community leaders to launch the "Seattle Climate Action Plan," a blueprint for reducing the city's greenhouse gas emissions. Among the many community-wide actions recommended by this group were steps aimed at further reducing the carbon footprint at Seattle City Light.

This accelerated activities already underway at our utility. The most important step is to expand upon our aggressive energy conservation program. Last year, conservation reduced our electricity load by eleven percent – saving our customers \$63 million.



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Beyond conservation, several years ago we replaced high emitting resources, including coal, with low emission and renewable resources, such as wind. Looking forward, the 2007 integrated resource plan relies exclusively on conservation and renewable power to meet our future load growth.

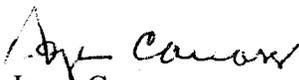
The most innovative climate program at Seattle City Light is our carbon neutral program. Even with the various other steps we have taken to reduce our greenhouse and other air emissions, power purchases combined with daily operations still result in greenhouse gas emissions. To mitigate these, Seattle City Light is the first utility in the United States to achieve zero greenhouse gas emissions by offsetting all the emissions associated with the production, transmission and delivery of our power.

For example, we are working with Seattle's growing cruise ship industry to connect ships to shore power while in port rather than burn diesel. We have launched a biodiesel program that pays for cleaner fuel in local buses, Washington State ferries and city trucks. These activities reap benefits beyond the 650,000 tons of carbon dioxide we have offset since launching the program in 2000. They also serve as a catalyst for change by providing opportunities for us to partner with other businesses to encourage a more carbon friendly future in our local economy.

In addition to reducing our carbon footprint, Seattle City Light has long been recognized as a steward of the natural resources affected by our hydro projects. Our Skagit hydro project was the first large project to be certified as low impact, and today it is home to the largest and healthiest wild runs of Chinook, pink and chum salmon in the Pacific Northwest. We invite you, your staff, and any other interested members of the committee to tour our facilities. As we work to address climate change, we will continue to protect the environmental and cultural benefits of the watersheds where we generate power, while providing our customers with an affordable source of non carbon power.

Seattle City Light is primarily focused on ways to reduce carbon emissions while still providing reliable, low cost power to our customers. However, we recognize that climate change, left unchecked, could dramatically alter our way of life here in the Northwest and around the world. For that reason, we are encouraged that Congress is poised to act swiftly. I look forward to working with your Committee in this tremendous effort and am pleased to provide you with that attached thoughts regarding the issues you raised in your recent letter.

Sincerely,


Jorge Carrasco



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**Response from Seattle City Light to Congressman Dingell,
Chairman, Energy and Commerce Committee and Congressman
Boucher, Chairman, Subcommittee on Energy and Air Quality
March 19, 2007**

1. **Please outline which issues should be addressed in the Committee's legislation, how you think they should be resolved, and your recommended timetable for Congressional consideration and enactment. For any policy recommendations, please address the impacts you believe the relevant policy would have on:**
 - a. **emissions of greenhouse gases and the rate and consequences of climate change;**
 - b. **the effects on the U.S. economy, consumer prices, and jobs.**

Congress needs to move swiftly to pass major legislation that reduces our nation's emissions of greenhouse gases to a level appropriate to prevent the many risks associated with global warming. These policies should set clear and firm reduction targets, and then harness the creative forces of our market economy so that regulated entities have the maximum flexibility to achieve these reductions at the lowest cost. It is through the dynamic forces of our economy that we are most likely to find the innovative solutions and breakthrough technologies that are needed to lead us to a lower carbon future.

We also encourage the Committee to examine the likely environmental and economic disruptions associated with global climate change. What regions or populations in the United States are most at risk from such disruptions? What steps, in addition to reducing greenhouse gas emissions, may be needed to assist those citizens most vulnerable?

Certainly the Pacific Northwest, which is overwhelmingly reliant on hydro power, is one region at risk. For example, Seattle City Light receives ninety percent of its electricity from hydropower, much of it from dams operating in the Northern Cascades. Snow packs have already been reduced in the Cascades since the 1950s, and University of Washington climate scientists expect to see this trend continue and even accelerate in the coming decades. Approximately 40% of the glacier cover in the North Cascades has been lost in the past 150 years. The best insurance against further disruptions to the Cascades and other ecosystems around the world is to lower greenhouse gas emissions.

Climate policies that are structured in ways that can harness market forces should allow our economy the ability to achieve greenhouse gas reductions at the lowest cost to society. Ideally, these policies will also encourage energy efficiency and less dependence on fossil fuels.



In terms of the effect of such policies on the economy, Congress should also recognize that there are significant economic costs associated with inaction. Cost of inaction may be hard to measure but could easily exceed costs associated with imposing limits on greenhouse gases. Globally, the most recent report from the Intergovernmental Panel on Climate Change lists many widespread changes that are already being observed; many are considered warning signals of an already changing climate. For example, since the 1970's we have seen harsher and longer droughts in the tropics and subtropics and an increase in intense tropical cyclone activity in the Northern Atlantic. Heavy precipitation events have increased over most land areas.¹ All of these changes come with tremendous human and economic cost that Congress should keep in mind when evaluating the overall costs associated with climate policies.

2. One particular policy option that has received a substantial amount of attention and analysis is "cap and trade." Please answer the following questions regarding the potential enactment of a cap and trade policy:

a. Which sectors should it cover? Should some sectors be phased-in over time?

Any climate policies should be broad-based and apply to all sectors of the US economy. However, an economy-wide cap and trade program may be challenging to design or implement. Initially, a more appropriate step may be to develop a cap and trade program for large, stationary sources of greenhouse gas emissions and develop other policy options for nonpoint sources. However, such a blended approach would need to develop regulatory frameworks that allow all sectors to contribute appropriately to solving the climate challenge.

b. To what degree should the details be set in statute by Congress or delegated to another entity?

Congress should spell out most of the major provisions associated with a new climate program. This includes the level and timing of enacting a new cap, the allocation methodology, the point of regulation, and any appropriate technology incentive or transitional assistance programs.

c. Should the program's requirements be imposed upstream, downstream, or some combination of both?

Seattle City Light is still evaluating this issue. The advantage of the upstream approach is that it captures a much larger base into a potential cap and trade program. However, we also believe there may be cost advantages associated with initially implementing a trading system further downstream, by focusing on emissions generated by large single point sources.



d. How should allowances be allocated? By whom? What percentage of the allowances, if any, should be auctioned? Should non emitting sources, such as nuclear plants, be given allowances?

Seattle City Light strongly supports an output-based allocation methodology. Output allocation is the best system to encourage the power sector to move toward lower and non emitting generation. Such a system rewards the same activities that any climate policy needs to encourage: energy efficiency, renewable power and low carbon technologies.

Non emitting renewable resources, including hydro power, should be granted allowances.

e. How should the cap be set (e.g. tons of greenhouse gases emitted, CO2 intensity)?

The cap should be a so-called “hard-cap,” that aims to first stabilize and then reduce our country’s total greenhouse gas emission.

f. Where should the cap be set for different years?

A phased-in reduction program should be established based upon the appropriate targets needed to prevent or minimize the environmental consequences associated with global warming. The timing should also take into account the appropriate capital investment horizons associated with the key regulated sectors.

g. Which greenhouse gases should be covered?

All six major greenhouse gases should be included in a climate program.

h. Should early reductions be credited? If so, what criteria should be used to determine what is an early reduction?

One advantage of an output-based allocation approach is that it provides early reduction credit to those in the electric power sector that have taken steps to invest in low or non carbon emitting technologies. Conversely, a historic emissions system rewards those that have the least efficient and highest emitting generating fleet, which in effect penalizes early action.

i. Should the program employ a safety valve? If so, at what level?

Seattle City Light believes that a safety valve should only be implemented temporarily and under extreme circumstances, such as a national emergency. We recommend this approach because a safety valve could undermine key policy goals associated with a cap and trade program. At least two crucial flaws exist in a safety valve that sets a price ceiling for carbon allowances. First, it may allow greenhouse gas emissions to exceed the cap, weakening the climate reduction targets. Second, if the ceiling price equals the



market trading price, it may significantly weaken many of the more dynamic price signal benefits associated with carbon trading and thus stifle innovation.

j. Should offsets be allowed? If so, what type of offsets? What criteria should govern the types of offsets that would be allowed?

A limited use of offsets, particularly as a transitional tool, is a good alternative to a safety valve. Offsets provide an additional option for firms to invest in the early stages of the program in more affordable carbon reduction activities that may be available in other sectors. However, an offset must represent real additional reductions. To achieve this, offset programs should be guided by protocols with an appropriate third party verification process.

k. If an auction or a safety value is used, what should be done with the revenue from those features?

Revenues should be dedicated to programs that address disparate impact at the consumer level, or programs that incentivize additional conservation and development of renewable technology. For example, some funds should be dedicated to assist lower income household adapt to possible higher energy costs, ideally by providing energy efficiency assistance in their household and transportation choices. Likewise, some of these funds should be used to expand upon successful local climate reduction programs, particularly those that are prototypes for national deployment. Finally, technology incentives for the electricity sector may help jumpstart widespread deployment of conservation, and more renewable technologies. Any federal investment incentives need to provide parity between consumer and investor owned utilities.

l. Are there special features that should be added to encourage technological development?

Perhaps the most powerful technology development tool available to Congress is an output-based allocation approach. By tying the allowance allocation directly to carbon generation standard, you send a clear market signal in support of more efficient fossil generation, more renewable power and more non emitting carbon. Such an approach allows the market – rather than the federal government – to be the primary engine for technology innovation.

m. Are there design features that would encourage high-emitting developing countries to agree to limits on their greenhouse gas emissions?

The most important design features are those that position US businesses to become global leaders in developing competitively-priced energy conservation systems and low emitting and renewable technologies that can be exported to these fast-growing regions.



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3. How well do you believe the existing authorities permitting or compelling voluntary or mandatory actions are functioning? What lessons do you think can be learned from existing voluntary programs or mandatory programs?

Building on our strong hydro base, Seattle City Light is the first carbon neutral utility in the United States. This program demonstrates that it is possible to achieve significant reductions in greenhouse gas emissions at an affordable cost and that the program can generate both local environmental and economic co-benefits. The offset program has been a tremendous success for many reasons.

First, it was affordable. Our residential customers paid less than one dollar a year for the offset program. Second, it allowed Seattle City Light to develop valuable partnerships with other sectors of Seattle's business community, including our Port, the cruise line operations, local and state transit authorities and farmers. Together, we shared our expertise in ways that allowed us to jointly achieve innovative carbon reduction strategies. It created new markets that led to local business opportunities, and improved local air quality. Finally, it reduced greenhouse gas emissions by 650,000 tons.

Our experience with this voluntary program has also highlighted the difficulty of acquiring verifiable, high quality offsets in the absence of federal standards. So while voluntary programs are a good first step, we believe they are not a substitute for meaningful federal action.

4. How should potential mandatory domestic requirements be integrated with future obligations the United States may assume under the 1992 United Nations Framework Convention on Climate Change? In particular, how should the U.S domestic regime be timed relative to any international obligations? Should adoption of mandatory domestic requirements be conditioned upon the assumption of specific responsibilities by developing nations?

As the world's largest emitter of greenhouse gases and its wealthiest economy, we believe it is appropriate for the United States to take steps to reduce our own greenhouse gases in advance of developing countries. Rather than waiting, we believe the United States should instead become a global leader in moving the world toward a more carbon-friendly future.



- 5. What, if any, steps have your organization's members or its individual members taken to reduce their greenhouse gas emissions? Which of these have been voluntary in nature? If any actions have been taken in response to mandatory requirements, please explain which authority (State, Federal, or international) compelled them?**

These issues have been covered in other areas within our comments.

¹ Intergovernmental Panel on Climate Change: *Summary of Policy Makers*, February 5, 2007, page 8.

